

Auditor-General of South Africa

Hibiscus Coast Municipality - Audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Hibiscus Coast Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Hibiscus Coast Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hibiscus Coast Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Events after reporting date

8. The financial statements in note 45 disclosed that the Hibiscus Coast Municipality merged with Ezinqoleni Municipality after the local government elections to form Ray Nkonyeni Municipality. This arose due to a redetermination of boundaries in terms of section 21 of the Local Government: Municipal Demarcation Act of South Africa, 1998 (Act No. 27 of 1998). Consequently, Hibiscus Coast Municipality ceased to exist from 9 August 2016.

Material impairment provision

9. The municipality recognised a provision for bad debt impairment of R135,23 million (2014-15: R69,37 million) on consumer receivables in note 9 and 11 of the financial statements as the recoverability of this amount was doubtful.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the service delivery objective presented in the annual performance report of the municipality for the year ended 30 June 2016.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether the reported performance was consistent with the planned objective. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information.
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness and reliability of the reported performance information for the service delivery objective.

Additional matters

18. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective; however, I draw attention to the following matters:

Achievement of planned targets

19. The annual performance report on pages ... to ... includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the service delivery objective. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

21. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning

22. The key performance indicators set by the municipality did not include the indicators on the percentage and/or number of households with access to basic levels of electricity and solid waste removal as required by section 43(2) of the Municipal Systems Act of South Africa, 2000 (Act no. 32 of 2000) and Municipal Planning and Performance Management Regulation 10(a).

Internal control

23. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

24. The accounting officer did not exercise adequate oversight responsibility regarding compliance with legislation, in that; important requirements were not adhered to for the planning, monitoring and reporting of legislated service delivery objectives.

Performance management

25. Management did not implement adequate monitoring controls over compliance with laws and regulations. This was due to management not fully understanding the requirements of the applicable legislation.

*Auditor-General
Pietermaritzburg*

30 November 2016



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